

I am pleased to present the annual report for the year ended 31st December 2000.

Our consolidated profit after taxation, for the year ended 31st December 2000 was US\$2,035,640.

Net asset value as at 31st December 2000 was US\$73,627,662, representing US\$0.9898 per share.

The Board does not recommend the payment of a final dividend. No interim dividend was declared.

## **THE YEAR UNDER REVIEW**

The Group returned to profitability for the year. In general, the year 2000 was a stable one in terms of the general economic environment in China. Indeed, there were clear signs of improvements in the second half. Most of the Group's investee companies reported stable results, indicating that the enterprise sector in China has also improved.

During the year, as the Group continued to adopt a cautious investment strategy, no new investments were made by the Group.

More effort has been put to carrying out our new investment strategy. The proposal to sell all the non-technology related investments to First Shanghai Investments Limited in one package was not passed in the extraordinary general meeting of shareholders. Despite this setback, the Group's strategic direction remains intact and we will continue to seek an exit for those investments.

From a macro perspective, there were improvements on various economic fronts in China during 2000. The GDP grew by 8% while the consumer price index rose by 0.4%, thus reversing the downward trend that had existed for two consecutive years. Although the actual amount of utilized foreign direct investment only rose by a mere 1%, the contracted amount increased significantly by 51.3%, indicating a substantial improvement in foreign investors' view of China. China continued to record a trade surplus which enabled the RMB to strengthen against the US dollar. The fundamental improvement in the economy has led to an upturn in domestic business activity.

During the year under review, Shangdong Lukang Pharmaceutical Co. Ltd. recorded a healthy profit growth, due to a timely switch of products mix. Results of First Shanghai Investments Limited also improved thanks to a stable performance of investments and the buoyant stock market in Hong Kong during the first half of 2000.

Negotiations with the Zhongshan Municipal Government made some headway. We were told that the Guangdong Provincial Government had approved the comprehensive toll road restructuring plan submitted by the Zhongshan government. The Group's two toll road investments are also included in the plan. It is hoped that a significant break-through can be achieved soon.

As at 31st December 2000, the Group had long-term investments, at cost less provisions of US\$40.03 million (1999: US\$38.04 million) and listed investments at market value of US\$1.76 million (1999: US\$1.43 million). The increase was due to the subscription to the IPO shares in China Petroleum & Chemical Corporation whose price has since dropped due to adverse market conditions. However, we believe that the fundamentals of that company are good and will gradually be reflected in the share price. We will complete the disposal of the portfolio when market conditions improve.

For more information on our investments, please refer to the Investment Section.

## **LIQUIDITY AND FINANCIAL RESOURCES**

The Group maintained a sound financial position in 2000. As at 31st December 2000, the Group has cash and bank balances of US\$6.79 million (1999: US\$6.51 million) and no debt. Most of the Group's investments are located in China where the RMB is the official currency and the exchange rate of which remained stable in 2000.

## **FUTURE PROSPECTS**

Taking into account global trends as they affect China, the Group will focus on those value-added industries with growth potential created by new technologies. Despite the recent massive corporate shake-out in the technology sector, it remains an attractive area for investment.

The Group's definition of technology has a broader perspective and is not limited to the popular IT and biotech sectors. However, given the nature of the investment market, and investors' expectation of developments in a particular sector at a certain point in time, the Group's activities may closely follow market trend. The Group's guiding principle on investment is that there has to be a viable and sensible business model and a team of dedicated and competent people to propel the business forward. Whatever the nature of a project, we will require a visible product or service for which there is persistent demand and to which the underlying investment candidate can become a qualified supplier.

China is poised to join the WTO this year although this is by no means a forgone conclusion. The significance of this milestone to foreign investors is that, apart from the immense market which they may tap, there will be a level playing field with their Chinese counterparts in terms of policies and governing laws and regulations.

The better economic infrastructure and improved financial strengths will allow China to continue its deregulation of the RMB and the stock markets. It is only a matter of time before the RMB capital account will be allowed free convertibility. The Chinese government has recently decided to allow local people to invest in the "B" share market and some legal person "B" shares were allowed to be traded on the stock exchanges. These moves have a profound impact on the future direction of investment funds. While an unconditional and complete exit from the Chinese stock exchange may not be viable for the time being, the trend is nevertheless very positive.

The blue print for the 10th Five-year-plan has a strong market economy flavour. This further confirms the Chinese government's determination to continue to liberalize the economy towards a market economy. As this trend continues, investors will be in a better position to identify market opportunities, so we maintain our confidence in the market opportunities in China.

Finally, I would like to take this opportunity to thank my fellow directors, shareholders, members of the investment monitoring committee and the investment manager for their valuable contributions and support.

By Order of the Board

**Lao Yuan Yi**

*Chairman*

Hong Kong, 20th April 2001